

Message Text

CONFIDENTIAL

PAGE 01 RIO DE 02677 141129Z
ACTION ARA-14

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FM AMCONSUL RIO DE JANEIRO
TO SECSTATE WASHDC 6351
INFO AMEMBASSY BRASILIA
AMCONSUL SAO PAULO

C O N F I D E N T I A L RIO DE JANEIRO 2677

E.O. 11652: GDS
TAGS: EGEN, EAGR, BR
SUBJECT: BRAZIL'S ECONOMIC PERFORMANCE: A SURVEY OF OPINION

1. INTRODUCTION AND SUMMARY:

E/C OFFICERS FROM CONGEN RIO DE JANEIRO AND SAO PAULO (IN SOME CASES ACCOMPANIED BY EMBASSY FINANCIAL ATTACHE) MADE SERIES OF CALLS TO OBTAIN LATEST ECONOMIC FORECASTS OF BRAZIL'S PERFORMANCE THIS YEAR. THE SURVEY WAS PROMPTED, IN PART, BY THE SERIOUS DROUGHT (NOW ENDED) IN BRAZIL'S AGRICULTURALLY IMPORTANT SOUTH-ERN REGION. THE EFFECTS OF THE DROUGHT HAVE CAUSED RE-EVALUA-TION OF MOST ECONOMIC FORECASTS. THIS SURVEY SETS FORTH THE LATEST MARCO ECONOMIC FORECASTS OF AMERICAN AND BRAZILIAN ECONOMISTS AND BANKERS.

2. THIS SURVEY REFLECTS THE VIEWS OF THE FOLLOWING PEOPLE:

A. ECONOMIC RESEARCH INSTITUTIONS: GETULIO VARGAS FOUNDATION - JULIAN CHACEL (DIRECTOR OF STUDIES AND RESEARCH); CARLOS GERULDO LANGONI (DIRECTOR OF POST-GRADUATE ECONOMIC STUDIES); ANTONIO CARLOS LEMGRUBER (EDITOR OF CONJUNTURA ECONOMICA);
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 RIO DE 02677 141129Z

CENTER FOR TRADE STUDIES - CELSO PASTORE (SUPERINTENDENT OF STUDY AND RESEARCH); UNIVERSITY OF SAO PAULO, ECONOMIC RESEARCH FOUNDATION - ROBERTO B.M. MACEDO (DIRECTOR OF RESEARCH), CELSO MARTONE, ADREA CALABI, JOSE TEOFILO OLIVEIRA (ECONOMISTS).

B. PRIVATE BANKERS: BANK OF BOSTON - ROBERT FREELAND (VICE PRESIDENT), VIVIAN MORGAN MENDES, HUGO MARIO ROJAS (ECONOMISTS);

BANK OF AMERICA - MICHAEL GIBBS (REPRESENTATIVE); CITIBANK - ANTHONY HOWKINS (VICE PRESIDENT); BANCO LAR BRASILEIRO (CHASE MANHATTAN) - ROGER HIPSKIND (DIRECTOR), JAYME GARCIA (ECONOMIST); REPUBLIC NATIONAL BANK OF DALLAS - GORDON ARNOLD (REPRESENTATIVE); UNIBANCO - MARCILIO MARQUES MOREIRA (PRESIDENT). ALL SOURCES AGREED THAT THE DROUGHT HAS ELIMINATED ANY POSSIBILITY OF ACHIEVING MAJOR MACRO-ECONOMIC GOALS SET EARLIER BY THE GOB (SEE BRASILIA 3921 AND PREVIOUS). THE INFORMATION GATHERED IN THIS SURVEY HAS BEEN SUMMARIZED BY MACRO-ECONOMIC AREA; IN EACH CASE, GOBS - 1978 GOAL HAS BEEN CITED.

3. TRADE BALANCE. GOB GOAL WAS .5 TO ONE BILLION DOLLAR SURPLUS. IN THIS AREA, LANGONI WAS MOST SANGUINE, STATING THAT A BALANCED TRADE ACCOUNT WAS STILL POSSIBLE. OTHER, LESS OPTIMISTIC, ESTIMATES RANGE FROM \$300 MILLION DEFICIT (GARCIA DOS SANTOS) TO 1.5 BILLION DOLLAR DEFICIT (MORGAN MENDES). LANGONI AND OTHERS POINTED OUT THAT GOB HAS ABILITY TO MANIPULATE SIZE OF DEFICIT TO SOME EXTENT BY LIMITING SIZE OF ITS FOREIGN PURCHASES OF AGRICULTURAL COMMODITIES AND OTHER PRODUCTS, ESPECIALLY PURCHASES BY STATE-OWNED ENTERPRISES. GOB HAS ANNOUNCED \$400 MILLION REDUCTION IN PURCHASES BY STATE-OWNED COMPANIES AND FURTHER CUTS MAY BE FORTHCOMING. SEVERAL OF OUR INTERLOCUTORS WARNED OF THE COSTS OF SUCH CUTS: REDUCED GDP GROWTH (LANGONI) AND INCREASED INFLATION (GARCIA DOS SANTOS). THE BANKERS CONSULTED UNANIMOUSLY EXPRESSED NO CONCERN WITH A TRADE DEFICIT OF UP TO \$1 BILLION. EXISTING LIQUIDITY AND THE

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 RIO DE 02677 141129Z

BAD LUCK NATURE OF THE DROUGHT LED TO THE GENERAL BELIEF THAT BRAZIL WOULD BE ABLE TO BORROW WHAT WAS NEEDED IN THE INTERNATIONAL MARKET.

4. INFLATION. GOB GOAL WAS A REDUCTION IN THE RATE OF INFLATION OF ABOUT THE SAME AMOUNT AS 1977: I.E. REDUCTION OF 7 PERCENT, OR 32 PERCENT OVERALL INFLATION. ALL SOURCES AGREED THAT THIS GOAL WAS OUT OF REACH. MOST OPTIMISTIC WAS MOREIRA AT 35-37 PERCENT INFLATION WITH MOST OBSERVERS FORECASTING 38 TO 40 PERCENT FOR 1978. INFLATION COULD WELL GO EVEN HIGHER IF FOREIGN PURCHASES OF AGRICULTURAL COMMODITIES ARE LIMITED OR DISTRIBUTION OF COMMODITIES DELAYED. GARCIA DOS SANTOS WARNED THAT INFLATION IN BRAZIL IS ESPECIALLY SENSITIVE TO CHANGES IN AGRICULTURAL PRODUCTION. HE ALSO SAID THAT GREATER DEMAND FOR CREDIT FROM AGRICULTURAL SECTOR WOULD PUSH INTEREST RATES HIGHER THAN HAD BEEN EXPECTED AND, ECHOING AN OFT-HEARD BANKERS' WARNING, SAID THAT ANY SIGNIFICANT INCREASE IN INTEREST RATES WOULD FURTHER SLOW THE ECONOMY. BOTH HIPSKIND AND LANGONI FELT GOB WOULD TIGHTEN MONETARY POLICY TO HOLD INFLATION AT 40 PERCENT, EVEN AT THE COST OF REDUCED GROWTH.

5. GROWTH. GOB FORECAST WAS FOR GROWTH IN 5-5 1/2 PERCENT

RANGE. DIFFERENCE OF OPINION AMONG OUR SOURCES WAS WIDER IN THIS AREA THAN IN ANY OTHER. FORECASTS RANGED FROM 4 TO 5 PERCENT GRWOTH (FREELAND) TO NO GROWTH (PASTORE). MOST GROWTH PREDICTIONS WERE IN THE 3 TO 4 PERCENT RANGE. ROJAS NOTED ACCELERATING INDUSTRIAL ACTIVITY AS ONE MEANS OF OFFSETTING LOSSES IN THE AGRICULTURAL SECTOR. PASTORE BASED HIS ZERO GROWTH FORECAST ON A PREDICTED DECLINE IN HOUSING CONSTRUCTION BECAUSE OF A FINANCING SQUEEZE, REDUCTION IN IMPORTS (SEE PARA 3), EXPECTED TIGHTENING OF MONETARY POLICY AND REDUCED PRIVATE INVESTMENT BECAUSE OF POLITICAL UNCERTAINTY IN ADDITION TO THE DROUGHT. CHACEL PREDICTED 6 PERCENT NEGATIVE AGRICULTURAL GROWTH AND OVERALL GDP GROWTH OF 3 PERCENT. CHACEL CITED A PHYSICAL CROP LOSS OF 12 MILLION TONS AND AS YET UNSPECIFIED LEVESTOCK LOSSES TO SUPPORT HIS FORECAST. HOWKINS STRESSED
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 RIO DE 02677 141129Z

CYCLICAL NATURE OF AGRICULTURAL PRODUCTION AND SUGGESTED ORIGINAL GOB GROWTH ESTIMATES FOR 1978 MAY HAVE BEEN BASED ON UNSUALLY HIGH 1977 GROWTH, THUS, UNREALISTIC EVEN BEFORE THE DROUGHT.
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